EB WEALTH

# QUARTERLY REPORT
# Q1 2019

# Global Overview

| Global sector performance | | | |
|---|---|---|---|
| **Markets** | **Country** | **Index (ex div) / sector** | **Performance for the Period 01/12/2018 to 28/02/2019** |
| North America | USA | S&P 500 | 1.58% |
| | | Dow Jones | 1.91% |
| | | Nasdaq | 3.61% |
| UK | UK | FTSE 100 | 1.71% |
| | | FTSE All-Share | 1.71% |
| Europe | Germany | Xetra DAX | 2.30% |
| | France | Paris CAC 40 | 4.84% |
| | EU Countries | FTSEurofirst 300 | 3.97% |
| Asia | Japan | Nikkei 225 | -4.40% |
| | China | Hang Seng | 8.01% |
| | India | Nifty 50 | -0.69% |
| South America | Brazil | Sao Paulo Se Bovespa | 6.84% |
| | Mexico | SE IPC | 2.61% |
| Other Markets | South Africa | JSE FTSE ALL SHARE | 11.35% |
| | Australia | S&P AUST | 8.71% |
| | Russia | RTS | 5.34% |
| | Canada | S&P/TSX COMPS | 5.73% |
| Commodities | N/A | Gold | 5.38% |
| | | Silver | 6.88% |
| | | Brent Crude Oil | 11.70% |
| | | Copper | 4.32% |

As shown above, markets have recovered some of the losses from the previous quarter over the December to February period. The best performing regions were South Africa, Australia and China. However, Japanese markets bucked this trend with its main market continuing to fall whilst India's main market was also relatively flat.

Overall, our fund portfolios were slightly higher (although relatively flat) over the quarter which is in line with their relevant benchmarks. On the positive side, the two new active American funds added in October last year have obtained returns over 10% and our active European funds have also performed very strongly over the quarter. All four funds have performed within the top quartile compared to sector peers. Additionally, our natural resources fund recovered strongly over the quarter. On a less positive note, our recently added active Japanese funds and the Jupiter India fund have both continued to fall this quarter. In terms of our UK exposure, we had a mixed performance with our Marlborough Multi Cap & Micro Cap funds and Merian Mid Cap funds recovering strongly this quarter, whilst our Liontrust UK Growth fund, although posting positive performance, underperformed sector peers.

Overall, we are pleased that the new additions and replacement funds we have made over the last year have, on the whole, performed well. Additionally, with stock markets currently very volatile, our overweight exposure to cash has helped protect our portfolios from the recent market falls. In 2019, we will be continuing with our relatively defensive view on markets whilst geo-political tensions and major regional political events are still prevalent and are yet to be concluded.

# Japan Investment Outlook

In this edition, we look at the investment case for Japanese equities in 2019 and beyond. Japanese equities have averaged between 8-10% return (including dividends) over the last 15 years based on its two main indices, the Nikkei 225 and the more domestic Topix index. However, between October and December 2018, Japanese markets lost over 20% which was mainly due to natural disasters (an earthquake and typhoon) and trade tensions between the US and China.

Japan is known to be one of the largest exporters worldwide. The exporting of goods is heavily impacted by the value of the Yen compared to the importer's currency. The Yen has been falling in value in comparison to the dollar over the last two years, mainly due to the fact the Federal Reserve (Fed) has been increasing interest rates in the US at a fast pace over the same period. This has meant the goods have become cheaper for importers based purely on currency. With the Fed hinting that it is likely to continue hiking interest rates in 2019, we see this benefitting the large exporting companies in Japan, helping to bolster company revenues.

On a political front, Prime Minister Shinzo Abe won a third term as Liberal Democratic party leader in October 2018, which will extend his six-year leadership In Japan and makes him the third longest serving leader ever. The Prime Minister has also managed to hold onto many of his Cabinet and this political stability has allowed the Abe administration to cultivate deep rapports with foreign policymakers, which in turn has made it easier to implement their own long-term agenda. Additionally, bureaucrats understand that - unlike many previous Prime Ministers who haven't lasted more than two years - Abe has both the time and the power to see his initiatives through.

On the economic front, Japan is making slow and gradual progress in its fight against deflation. Wages have been rising at a modest rate and core inflation is still below 1%. However, the Bank of Japan remains committed to lowering interest rates and increasing monetary supply through Quantitative Easing, a policy stance that is not expected to change in the foreseeable future and which should help keep the yen competitive relative to the US dollar. This should be supportive for the broader economy and for corporate earnings.

Concerns in relation to Japan's ageing population and falling population still exist. However, the proportion of middle-class families has risen significantly, which has led to rising consumption in this demographic, providing a long-term boost to the economy.

The biggest concern is the uncertainty related to US trade policy, with concerns that trade tensions between the US and China may prove disruptive and could extend to other regions. Trade discussions between the US and Japan are expected to be formalised in 2019 and while tariff risks remain, negotiations so far have been constructive and the large local presence of the Japanese carmakers in the US provides some leverage. It is also worth noting that car manufacturers that export cars from Japan into China, where import tariffs on automobiles are being reduced, will benefit from this.

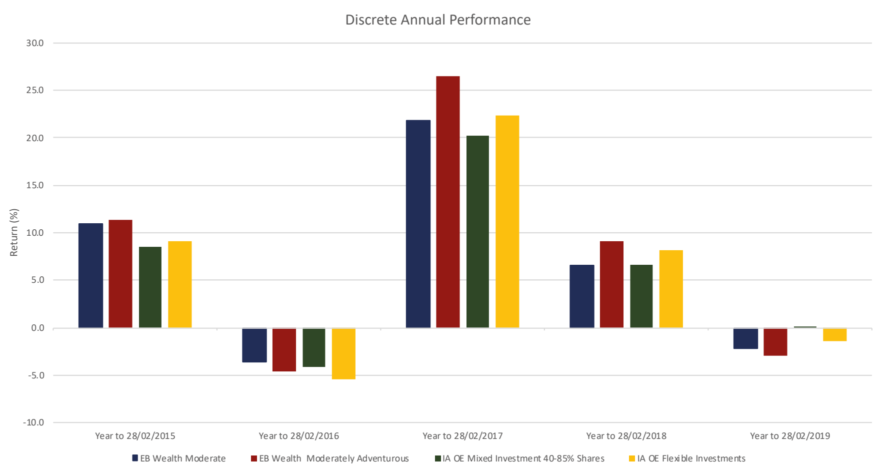
At EB Wealth, we remain positive for Japanese equities and we feel that the recent fall in Japanese markets is only based on short-term issues with the long-term picture still looking strong for the economy.

Abbas Juma

Investment Portfolio Manager

# EB Wealth Portfolio Performance


The chart above shows year to date performance of our Moderate and Moderately Adventurous fund portfolios over the last five years. We have also included the IA OE Mixed Investments 40-85% returns and IA OE Flexible Investments as benchmarks. Please see the last page for more information in relation to the benchmarks along with further information on our portfolio returns.



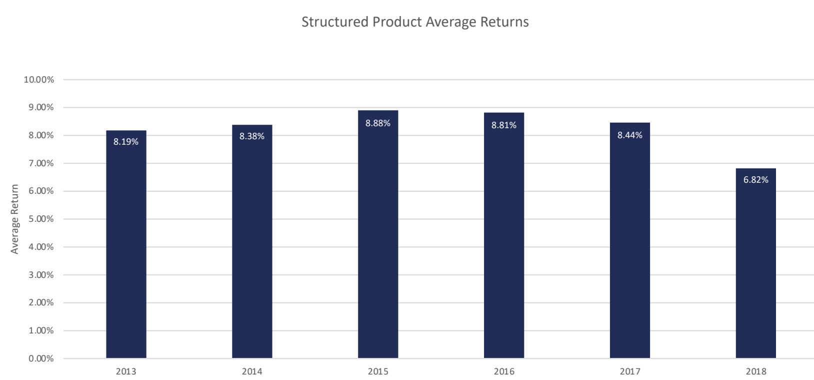

## Discrete Annual Performance

This chart shows the discrete annualised performance of our Moderate and Moderately Adventurous fund portfolios over the last five years.

We also run Cautious, Moderately Cautious and Adventurous portfolios and information on these portfolios can be obtained upon request.

## Structured Product Average Return

This chart shows the average return achieved on our structured products recommendations on a discrete annualised basis.



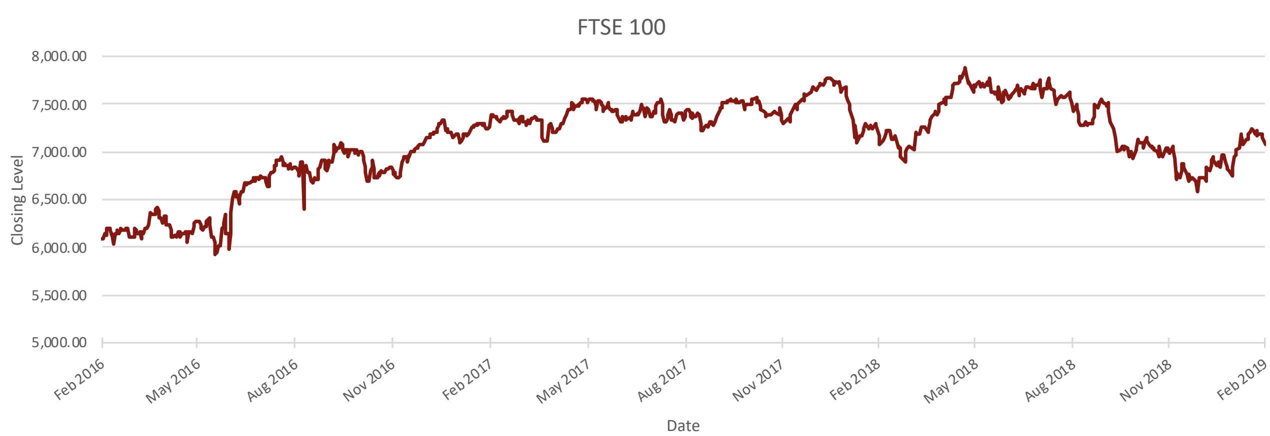
# Market Commentary UK

| Macroeconomic Highlights 01/12/2018 to 28/02/2019 | | |
|---|---|---|
| | **Latest Reading** | **Compared to previous quarter** |
| GDP Growth | 0.2% | Fell from 0.7% |
| Yearly Inflation | 1.8% | Fell from 2.4% |
| Wage Growth Including Bonuses | 3.3% | Increased from 3.2% |
| Unemployment Rate | 4.0% | Fell from 4.1% |
| Interest Rates | 0.75% | Remained at 0.75% |

UK equity markets were slightly higher over the quarter with the FTSE 100 and FTSE All-Share both up 1.7%. Following on from the fall in global markets over the previous quarter, UK markets continued the downward trend in December with crude oil prices falling due to concerns of a global economic slowdown. However, markets recovered in 2019 largely thanks to political developments as Theresa May secured the EU's agreement for the UK's withdrawal agreement but was forced to delay Parliament's vote on the deal on concerns that it would not be passed. Heightened fears of a no-deal Brexit scenario on this news saw Sterling fall to a 20-month low versus the US dollar. The Prime Minister survived the subsequent no-confidence vote launched by the Conservative Party and in January the House of Commons voted twice on the Prime Minister's withdrawal agreement. Initially, MPs voted down the bill by a historic margin. However, two weeks later the Prime Minister succeeded in securing MPs' backing, subject to material amendments to the backstop arrangement proposed by the agreement.

Theresa May's decision to allow Parliament to vote on whether to seek an extension of Article 50 saw the value of Sterling rise. The Bank of England (BoE) cut its UK growth forecast from 1.7% to 1.2% for the year, citing slowing global economic growth and Brexit-related uncertainty. The downgrade represented the largest downward revision to BoE estimates since the EU Referendum result in 2016.

UK markets have recovered between 5-6% in 2019. The main driver for UK markets is the ongoing 'Brexit' negotiations with the deadline looming large. As things stand, Theresa May has not managed to negotiate a deal that UK MPs are happy to agree on. If Theresa May is unable to negotiate a deal that the UK MPs agree on, we don't know whether the deadline will be extended or whether a no-deal Brexit will be instigated. Additionally, calls for another general election may reappear as well as the possibility of another referendum. Given all this continued uncertainty, we at EB Wealth have decided to continue with our underweight UK exposure for the time being.



# Market Commentary US

| Macroeconomic Highlights for 01/12/2018 to 28/02/2019 | | |
|---|---|---|
| | **Latest Reading** | **Compared to previous quarter** |
| GDP Growth | 2.6% | Fell from 3.5% |
| Yearly Inflation | 2.2% | Fell from 2.5% |
| Wage Growth | 2.8% | Fell from 3.3% |
| Unemployment Rate | 3.8% | Increased from 3.7% |
| Interest Rates | 2.50% | Increased from 2.25% |

US markets fell rapidly in December but then recovered in the New Year. The S&P 500 ended 1.6% higher, the Dow Jones up just under 2% and the NASDAQ was up approximately 3.6%. In December, Trump warned that he was prepared for a long government shutdown if he did not receive funding for a border wall with Mexico (he aims to win US$5bn to fund the wall) which remains unresolved. This, alongside the ongoing trade war with China, higher borrowing costs and signs of a slowdown in global growth, led to poor sentiment. In January, the Fed said that it would be patient on interest rate moves and signalled flexibility in terms of reducing its balance sheet, which eased fears that policy makers would continue with plans to raise interest rates despite data suggesting that the economy is cooling amid optimistic signs on the economy and trade discussions. Towards the end of the quarter, Trump was closer to accepting a border spending deal, averting another government shutdown.

Concerns over whether the Fed will continue to increase interest rates in the US and the resulting impact on the US economy in the next two years still exist. Many leading economists are still predicting a recession in the next two years. Given US markets have continued to rise in 2019 so far, we remain cautious on US markets for the time being but will be monitoring political and economic data in order to analyse their impacts on US equities. Given the current volatility though, we remain underweight this quarter.

# Market Commentary Europe

| Macroeconomic Highlights for 01/12/2018 to 28/02/2019 | | |
|---|---|---|
| | **Latest Reading** | **Compared to previous quarter** |
| GDP Growth | 0.2% | Fell from 0.3% |
| Inflation | 1.4% | Fell from 2.2% |
| Wage Growth | 2.4% | Increased from 2.2% |
| Unemployment Rate | 7.9% | Fell from 8.1% |

European equities rose over the quarter with the Paris CAC rising 4.8%, the German DAX up 2.3% and the FTSEurofirst 300 up just under 4%. Markets reacted positively to Chinese authorities implementing measures to help mitigate some of the impacts of a slowdown and President Trump agreeing to extend the March 1 tariff hike deadline on China which eliminated fears of a full-blown trade war. On a less positive note, Italy fell into a technical recession which appears to have been due to a combination of a slowdown in domestic consumption and falling confidence. Elsewhere in the EU, the 'Gilet Jaunes' protests continue to plague France although recent polls suggest that support from the general public is falling. Moreover, in January we saw a new group of protestors, 'Foulards Rouges', staging marches against the violence and disruption caused by the 'Gilet Jaunes'. In Romania, the government released its latest draft budget for 2019 and notably there is no mention of the bank levy that was announced in December.

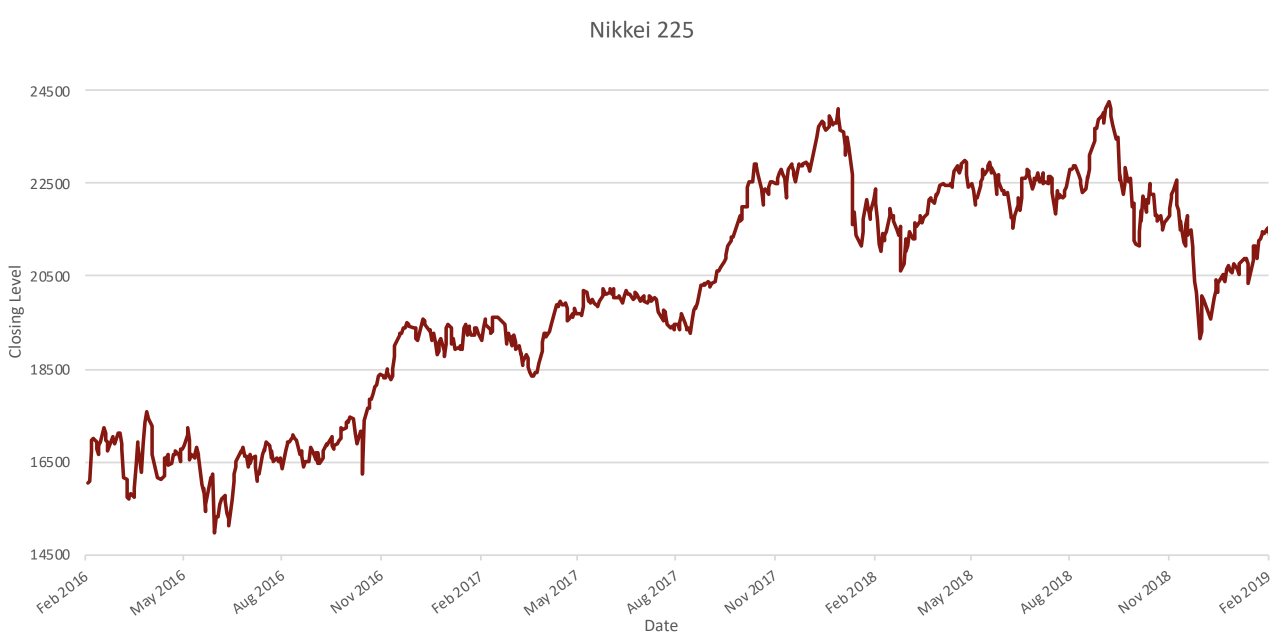
Despite European markets falling sharply in the second half of 2018, they have recovered somewhat so far in 2019. They have particularly reacted well to the trade tensions being softened between the US and China. Although budget concerns have damped in Italy, the news that the economy has now gone into recession is a headwind. On the bright side, political uncertainty in Germany has eased this quarter. Ongoing Brexit negotiations are also on the agenda with no sign of a conclusion in sight. However, we at EB Wealth still feel valuations are attractive in Europe and believe the markets will recover further over the year. Therefore, we remain overweight for the region.

# Market Commentary Japan

| Macroeconomic Highlights from 01/12/2018 to 28/02/2019 | | |
|---|---|---|
| | **Latest Reading** | **Compared to previous quarter** |
| GDP Growth | 0.3% | Increased from -1.2%. |
| Inflation | 0.2% | Fell from 1%. |
| Unemployment Rate | 2.4% | Increased from 2.3%. |

Japanese equities continued to fall over the quarter with the Nikkei 225 down 4.4%. Japan's equity market ended 2018 just off its 2018 lows amidst growing concerns over a global economic downturn, lingering US-China trade tensions, oil price weakness and Yen strength relative to the US Dollar. Weaker Chinese growth and US-China trade disruption saw a drop in December exports. Factory output was also lower in December, down 0.1% month-on-month – the seventh monthly drop in nine months – which weighed further on investor confidence. Despite Japanese manufacturing activity also falling in February at the fastest pace in over two years on lower export orders, Japanese equities recovered in 2019, buoyed by improvements in US-China talks, with export-dependent sectors benefitting as investors shrugged away concerns over weaker economic data. However, the main performance driver was the improvement in US-China relations as the two trading partners indicated that they are moving closer to agreeing on a deal which could see the US lifting tariffs and China acting on pledges for greater market reform. The announcement of an extension of the deadline for trade talks helped further raise investor confidence in the region.

Despite Japanese equity markets falling over the last six months, this has been mainly due to natural disasters that have impacted the economy and because of the continuing US-China trade tensions. However, with the natural disasters now behind them and trade tensions easing for the moment, the future is looking brighter for Japan. The Fed has been continuingly hiking interest rates in America, and this seems likely to continue over 2019 which will continue to devalue the Yen and boost the many large exporting companies in Japan. Also, Japan now has a large middle-class population and we see this having a positive impact on the economy in both the short and medium term with increased consumer spending. Therefore, we at EB Wealth maintain our overweight position for Japanese equities in 2019.



## Market Commentary Emerging Markets

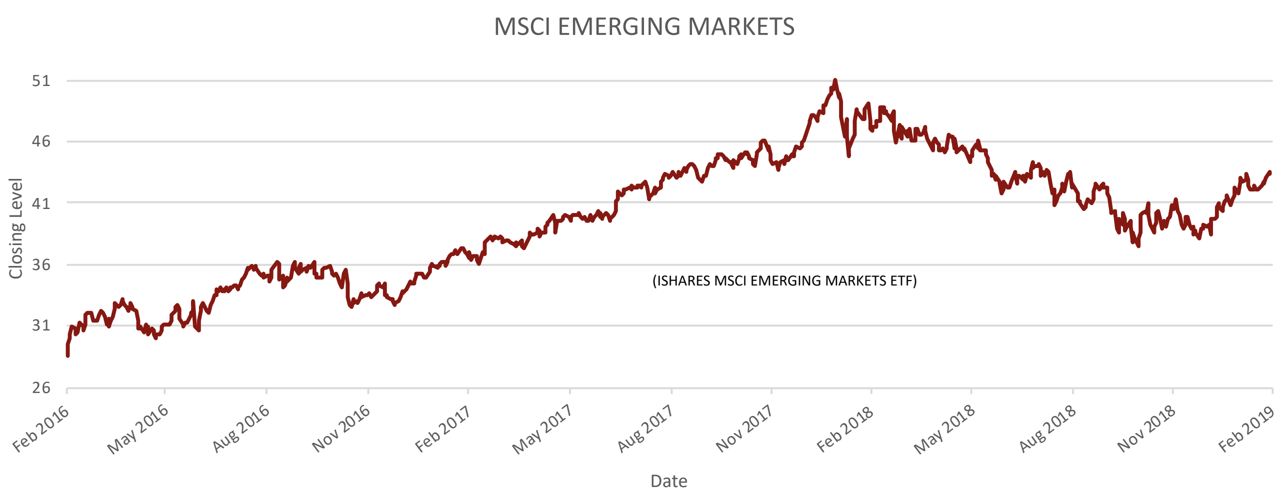
Emerging markets performed well this quarter with the majority of regions obtaining positive performance. South African equities led the way, but we also had strong performances in Australia and China.

In Asia, Chinese equities rose over 8% on the back of easing trade tensions with the US and indications from the central government of plans to stimulate the economy further. Despite 2018 GDP growth falling to 6.6%, other economic statistics pointed to an easing in the slowdown of the country's large-scale manufacturing sector in January. This, along with expectations that the authorities will roll out targeted stimulus measures to shore up economic growth and stabilise the near-term outlook, helped improve investor sentiment. Improvements in US-China trade issues and reduced risk from the Fed interest rate hikes also benefited Korean equities which rose on expectations of a normalisation in trade relations between Washington D.C. and Beijing along with a recovery in the memory chip market. Elsewhere, Indian equities struggled over concerns in relation to corporate earnings and corporate governance issues along with weaker inflation.

In Latin America, Brazil was the best performing equity market again, driven higher by favourable economic and political developments. Recently elected President Bolsanaro continued to organise his cabinet with most appointments being welcomed by markets. Inflation fell and retail sales rose year-on-year along with the country's trade surplus increasing. The prospect of lower taxes was enhanced following supportive comments from the country's new Finance Minister. Pension reform took a step forward as the government indicated that a bill to address the minimum retirement age could be more extensive than first envisaged. Mexico's equity market also drew support from new initiatives as the government announced it was cutting the tax rate for equity listings from 30% to 10%.

In the Europe, Middle East and Africa region, South Africa was one of the strongest performers supported by gold prices rising; the appreciation of the Rand, which rose over 8%; and South Africa's trade surplus rising to the highest on record in December as imports dropped sharply. In Russia, the US removed sanctions on Rusal (the world's second largest aluminium company), which provided an uplift to Russia's metals and mining sector. Turkish equities were boosted by easing inflation and the central bank's decision to keep interest rates on hold.

Overall, emerging markets have been the best performing indices in 2019, with strong performances across the board but most notably in South Africa, China and Brazil. Much of this has been due to trade tensions between China and the US easing along with commodity prices recovering since the turn of the new year. We still see strong potential for emerging markets this year and are especially excited by the prospects in Brazil, with all the optimism that the new President brings. For these reasons, we remain overweight for emerging markets in 2019 and will be adding a further active Brazilian fund to all our portfolios.



# Market Commentary Fixed Interest

Government and corporate bonds bucked the recent trend by rising this quarter. Corporate bonds outperformed government bonds whilst in the riskier sub sector high yield bonds outperformed investment grade.

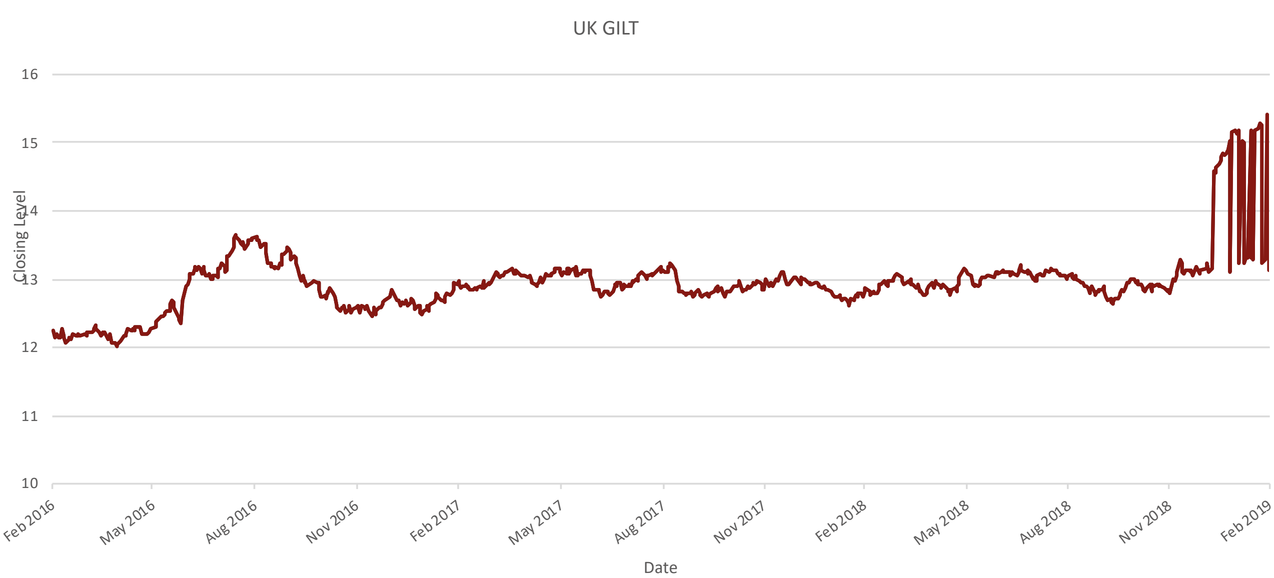
The main catalysts supporting the rally in bond prices in 2019 has been the Fed moving to a less aggressive approach to managing the supply of money. This was reaffirmed at its February meeting whereby participants announced a plan to stop reducing the Fed's balance sheet before too long. This, along with the Fed stating they will now be "patient" on future interest rate increases, has led the market to push out its expectations of further interest rate hikes, which is likely to be positive for bond prices.

The House of Commons' rejection of Theresa May's withdrawal agreement with the European Union, along with a series of further votes, were interpreted by the market as reducing the likelihood of a so called 'no-deal Brexit'. Additionally, the Labour party's decision to move to support a second referendum on membership of the European Union helped this narrative. This was seen as positive for UK bond markets.

In Europe, should the economy weaken further, the ECB maintains that it has all the tools and instruments needed, including the Targeted Longer-Term Refinancing Operations, a programme the ECB has used in the past that provides long-term loans to the banks. Bonds in the banking sector reacted well on this news. European currency high-yield corporate bonds also had their best January since 2012. This was heavily influenced by the sell-off towards the end of last year, which resulted in bond yields spiking and – at least temporarily - looking attractive.

Despite bond prices struggling last year, which was heavily influenced by interest rates rising quickly in America, yields have now started to look more attractive. This, coupled with reduced expectations of further interest rate hikes in America, has boosted bond prices so far in 2019. Although the Fed has indicated that they will be more passive with rises this year, markets are still predicting another two rises in 2019, this is likely to be a headwind for bond prices.

Finally, emerging market debt is on the rise which provides the potential for higher returns in bonds in these areas, albeit with greater risk. Overall however, we remain underweight in fixed interest once again highlighting the difficulty for lower risk investors in the current economic climate.



## Our Tactical Allocation

| Sector | Forecast | Action | Morningstar Moderately Adventurous Allocation % | Tactical Overlay % | Final Allocation % |
|---|---|---|---|---|---|
| US | Unfavourable | Underweight | 11 | -2 | 9 |
| UK Large Cap | Unfavourable | Underweight | 22 | -3 | 19 |
| UK Mid Cap | Unfavourable | Underweight | 8 | -1 | 7 |
| UK Small Cap | Unfavourable | Underweight | 5 | -1 | 4 |
| Europe | Favourable | Overweight | 13 | +2 | 15 |
| Japan | Favourable | Overweight | 7 | +2 | 9 |
| Asia | Fair | Neutral | 4 | 0 | 4 |
| Emerging Markets | Favourable | Overweight | 9 | +2 | 11 |
| Property | Unfavourable | Underweight | 5 | -1 | 4 |
| Commodities | Fair | Neutral | 5 | 0 | 5 |
| Global Fixed Income | Unfavourable | Underweight | 2 | -1 | 1 |
| UK Gilts | Unfavourable | Underweight | 2 | -1 | 1 |
| UK Corporate Bonds | Unfavourable | Underweight | 2 | -1 | 1 |
| UK Inflation-Indexed | Favourable | Overweight | 2 | +1 | 3 |
| Cash | Favourable | Overweight | 3 | +4 | 7 |

# Notes on EB Wealth Performance Statistics

Previously, we have included the FTSE 100 performance as a comparison against our portfolios. In April 2018, we replaced this with more relevant (and industry standard) benchmarks. These benchmarks are widely accepted and represent the average return of all 'mixed' or 'managed' investment funds. As our portfolios fall within the industry standard mandates for these two benchmarks, we feel that they are a more useful indicator of relative under - or over - performance.

**Our Benchmarks**

1. **IA OE Mixed Investments 40-85%** - this shows the average performance of all funds which qualify for the 'Mixed Investments 40-85%' sector which have the following characteristics:

- Include a range of different investments
- Maximum 85% equity exposure (including convertibles)
- Minimum 40% equity exposure
- No minimum fixed income or cash requirement
- Minimum 50% investment in established market currencies (US Dollar, Sterling & Euro) of which 25% must be Sterling
- Sterling requirement includes assets hedged back to Sterling

This is broadly in line with what the industry used to refer to as a "Balanced Managed" fund, and is broadly in line with our Moderate as well as Moderately Adventurous portfolios. However, our portfolios have no set mandates as to the amount of exposure we hold in any specific asset class.

2. **IA OE Flexible Investments** - this shows the average performance of all funds which qualify for the 'Flexible Investments' sector which have the following characteristics:

- Include a range of different investments
- No minimum equity requirement
- No minimum fixed income or cash requirement
- No minimum currency requirement

This is broadly in line with what the industry used to refer to as "Specialist". Since we do not impose any asset allocation restrictions on our portfolios, this benchmark is relevant; however, currently our Moderate and Moderately Adventurous portfolios would also fall within the mandate to be considered IA OE Mixed Investments 40-85%.

**Structured Product Returns**

The performance data provided is the average of all structured products we have recommended to clients over the last six years where the return of the product is known i.e. where a product has matured, or an income payment has been received. We have also weighted the performance figures based on the level of investment we have made – i.e. if we recommended a greater level of investment in one particular product over another, we have weighted the performance figures accordingly.

As structured products are close-ended investments, clients will only benefit from returns on the products they own personally rather than the average figures published in this report. The average figures are provided in an attempt to highlight the general benefit of using structured products to reduce the volatility of a portfolio without necessarily impacting the total return.

The structured product returns quoted in this report may change in subsequent reports due to the fact that products which we have recommended, but are yet to mature, have not been included in the returns quoted above. (For example, a five-year product with the potential to pay 6% a year which has not yet matured, will not be included in the figures above. Depending on the outcome of the investment, when the product matures, we will allocate either 6% or 0% a year to the preceding five years).

# Our Services

## Wealth Management

Pension / SIPP funding
Pension / SIPP investment management
Pensions in retirement / Income drawdown
ISA funding
ISA investment management
Trustee Investments
School Fees Planning
Managing estates under Power of Attorney

## Personal Insurances

Life and Critical Illness Cover advice and brokerage
Family Income Benefit advice and brokerage
Mortgage Protection advice and brokerage
Income Protection advice and brokerage
Private Medical Insurance advice and brokerage

## Tax Planning / Other

Pension funding and 'in retirement' tax planning
Inheritance Tax planning
Capital Gains Tax planning
VCTs, EISs, ISAs, Bonds
Financial Planning in relation to Marriage, Divorce or bereavement.

## Corporate Services

Auto Enrolment and Company Pensions
Partnership/ Shareholder Protection
Key Person Insurance
Employee Benefit Programmes and Communication
Services for Charities
Business Exit Planning

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